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C O N F I D E N T I A L SAN SALVADOR 001027

SIPDIS

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SUBJECT: EL SALVADOR FINANCE MINISTER RESIGNS

Classified By: Amb. H. Douglas Barclay; Reasons 1.4 (b,d).

¶1. (C) During a long conversation at his residence the evening of April 19, GOES Finance Minister Guillermo Lopez Suarez (strictly protect throughout) confirmed to Polcouns that he had, indeed, resigned his post, effective May 1. Lopez Suarez recounted how, on April 7, he had gone to see President Saca at the Presidential Palace, and had told Saca at the time that he (Lopez Suarez) did not feel he had the full backing of the President to carry out much-needed fiscal reforms, and that, in addition, he (Lopez Suarez) was being undermined by several members of Saca's inner circle, including Secretary to the Presidency Elmer Charlaix and Minister of Public Works David Gutierrez. Lopez Suarez told Saca that rumors were circulating about upcoming cabinet changes, including Lopez Suarez's own removal, and that he wanted to make it easier on Saca by offering his resignation.

Lopez Suarez said Saca accepted immediately and asked Lopez Suarez whether he wanted another position, such as an ambassadorship. Lopez Suarez told Saca that he did not need or want another government job, but recommended that his resignation not be announced until May 1, at which time it would become effective. Lopez Suarez's rationale was that he was getting ready to place some USD 400 million in GOES bonds in the international markets and he did not want his resignation to negatively impact the demand/price for the bonds. Saca agreed to keep the resignation under wraps until May 1.

¶2. (C) Lopez Suarez said that, despite Saca's assurances, members of the President's inner circle have begun leaking news of his resignation, and that several major Salvadoran newspapers had called him throughout April 19 to confirm the news. Lopez Suarez said that, true to his commitment, he had not provided confirmation to the media, and that only a handful of close friends and associates were aware of his resignation. Lopez Suarez then recounted how he had fallen out with Saca over the past few months. According to the Finance Minister, late last year he received credible information that Minister of Public Works David Gutierrez, a long-time ARENA party official, has personally approached two foreign companies -- one Italian, the other Mexican -- and had asked for kickbacks in exchange for lucrative infrastructure projects. When Lopez Suarez went directly to Saca with this information, the President appeared extremely concerned and told the Finance Minister to talk to Charlaix about it and get the issue resolved. According to Lopez Suarez, Charlaix went directly to Gutierrez and told him Lopez Suarez had blown the whistle on Gutierrez. Gutierrez then reportedly confronted Lopez Suarez and subtly declared him his enemy. When Lopez Suarez continued to receive other reports of corruption by Gutierrez, he reportedly approached Saca again, but this time found Saca becoming less accessible.

¶3. (C) Separately, Lopez Suarez affirmed that the GOES is in tight fiscal straits and needs to reform its pension system urgently, and to stop providing unjustified electricity, water, and gas subsidies. Lopez Suarez said he felt that the GOES does not have the political will to tackle these reforms, that he felt increasingly isolated in raising these issues within the Saca administration, and that, in his view, El Salvador will face an untenable fiscal situation by 2008 if these reforms are not effected. The Finance Minister further confided that, had he not been able to place USD 400 million dollars in bonds on April 19, he would not have been able to meet the public employee payroll this week. Lopez Suarez also expressed frustration over the fact that the largest companies in the country, especially the large banks, continue to evade their full tax payments, and added that some of the richest Salvadorans -- names like the Simans and others -- are using loopholes in the tax laws benefiting the free trade zones to evade tax payments. He concluded that the GOES is just not willing to take on these powerful business interests.

¶4. (C) Comment: Guillermo Lopez Suarez is probably the star of Saca's cabinet and is highly respected among the IFI's and the international banking community. He, more than any other GOES official, is responsible for having reformed the country's tax laws so that tax collection increased substantially over time. As a consequence of his efforts to extract tax payments from the country's powerful business interests, Lopez Suarez earned their enmity. These interest will not be saddened by his departure. Post, on the other hand, will miss someone we trust and respect, and we fear his departure will hurt the GOES's image before the international

financial community.
Butler